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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001341

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
NSC FORJSHRIER

E.O. 12958: DECL: 09/22/2018
TAGS: EPET ENRG EINV ECON VE
SUBJECT: VENEZUELA: CHEVRON SIGNS LNG FRAMEWORK AGREEMENT

Classified By: Economic Counselor Darnall C. Steuart; for reason 1.4 (d
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¶1. (C) Summary: Chevron will participate in the planned development of the first of three liquefied natural gas (LNG) trains planned by the Bolivarian Republic of Venezuela (BRV). The company will have a 10 percent share in the joint venture formed to develop the first train; the gas will come from Chevron's offshore Plataforma Deltana Block 2. Chevron reports the BRV has reached out to Trinidad and Tobago to reactivate unitization talks necessary because Block 2's Loran Field is contiguous with Trinidad and Tobago's Manatee Field. A number of new players in Venezuela's gas sector are represented in the various joint ventures including Portugal's Galp and EDP, Malaysia's Petronas and Russia's Gasprom. Chevron acknowledged that the BRV had pressured company participants to move up the date of the signing ceremony which gave President Chavez a forum to reiterate that he hopes to improve bilateral ties with the next U.S. administration. End Summary.

¶2. (U) In a September 19 event presided over by President Chavez, Chevron signed a Framework Agreement with Petroleos de Venezuela (PDVSA) to govern its participation in the first of three LNG trains planned for development at Guiria on Venezuela's Paria Peninsula. (Note: The entire petrochemical complex is styled as CIGMA, the Spanish acronym for the Gran Mariscal Ayachucho Industrial Complex. The offshore natural gas development component is called "Delta Caribe.") The three trains are each slated to produce 4.7 million tons per year of LNG.

¶3. (C) Chevron will have a 10 percent share in Train One, with PDVSA (60 percent), Portugal's Galp (15 percent), Qatar Petroleum (10 percent), and Japan's Mitsubishi/Mitsui (5 percent). Train One is slated to use gas from Plataforma Deltana Block 2 which was licensed to Chevron in 2003. In 2007, a conceptual offshore development plan was completed for Block 2, which includes the Loran Field that is contiguous to Trinidad & Tobago's Manatee Field where Chevron

successfully drilled an exploratory well in 2005. Chevron's Caracas-based Managing Director for Latin America Wes Lohec (PROTECT) confirmed in a September 19 conversation that unitization talks with Trinidad & Tobago have not been completed. Lohec reported that he believes the BRV has now reached out to the GOTT to call for resumption of the talks. Lohec added that despite PDVSA's announcement that Train One would be completed by the end of 2012, Chevron believes that 2015 is a more likely date. With the signature of the Framework Agreement, the participating companies can now move to select a project concept. Lohec speculated that the front end engineering and design work would not be completed until the end of 2009.

¶4. (C) The planned second train will use gas from PDVSA's Mariscal Sucre field, which PDVSA plans to develop alone. PDVSA will also have 60 percent in the joint venture formed to develop the second train with Galp (15 percent), Argentina's Enarsa (10 percent), Japan's Itochu (10 percent), and Mitsubishi/Mitsui (5 percent). PDVSA has had a deep water rig operating in Mariscal Sucre since the latter part of July; local rumor has held that the rig has cost $1 million per day. Lohec commented that although PDVSA had drilled in the Mariscal Sucre area before, no third party certification had ever been done. PDVSA is now drilling to finish defining the resource prior to seeking certification. Lohec said that PDVSA had announced that the development of Train Two would lag six months behind Train One. He speculated that the development of this train would actually lag up to a year and a half behind that of Train One, although he added delicately

that that time could be shortened if PDVSA "choose to do things with a greater risk profile."

¶5. (C) Chevron's Lohec reported that the announcement of the planned development of a third LNG train was a surprise. The gas for this train will reportedly come from two new exploration blocks off Blanquia and Tortuga (north and west respectively of Venezuela's Margarita Island) which Lohec described as "not considered very prospective." Although the trade press has published differing information about the consortium shares, the exploration consortium will include PDVSA, Russia's Gazprom, Malaysia's Petronas, Italy's Eni and Portugal's EDP. PDVSA also announced that Gazprom would take over Plataforma Deltana Block 4.

¶6. (C) Investment in the development of the offshore natural gas fields as well as the construction of the three LNG trains could reach $19.6 billion according to statements by Chavez and Energy Minister Ramirez at the September 19 ceremony. Chavez also announced that the gas would initially be used to supply the needs of the local economy and the rest would be exported to markets in Japan, South America, the Caribbean, Europe and Asia. Conspicuously absent was any reference to the U.S. market which was deemed to be the natural market for Venezuelan LNG when PDVSA first began to plan for this project. Lohec confirmed that none of the LNG is now planned for delivery to the U.S. market although he underlined that there has been no agreement on the commercial terms.

¶7. (C) Lohec revealed that he had been surprised by the timing of the public ceremony which he had expected several weeks later. The pressure on Chevron and other participants to move the ceremony to Friday, September 19, began on Monday, September 15, he said. Lohec also underlined that Chavez had taken the opportunity at the ceremony to address public comments to him about how Chevron had been included despite the issues between the Venezuelan and U.S. governments. He said Chavez had pointed to the U.S. flag and said he was glad it was there. Chavez also seized the opportunity to reiterate that he hopes to improve bilateral ties with the next U.S. administration.

¶8. (C) COMMENT: EconCouns congratulated Lohec on the

signature of the new framework agreement and reminded him
that the BRV had scrambled to mount a public ceremony to mark
the signature of an MOU with Chevron in 2003 -- five days
after Chavez' first public threat to cutoff oil exports to
the U.S.
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